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SUBJECT: UPDATE ON INVESTMENT IN IRAQ

REF: A. BAGHDAD 2727

[1](#)B. BAGHDAD 3527

[1](#)C. BAGHDAD 3398

[1](#)D. BAGHDAD 3628

[1](#)E. BAGHDAD 3579

SUMMARY

[1](#)1. (SBU) The Ministry of Industry and Minerals (MIM) has successfully concluded negotiations with a Japanese and an Egyptian consortium on joint venture (JV), production-sharing agreements for two state owned enterprises -- Beiji Fertilizer and Diyala Electric. MIM senior officials are confident they will conclude negotiations with other international investors on six similar JV deals for cement, glass, and sulfur plants, but the prospects of a billion dollar JV deal with steel giant Arcelormittal are not as certain. National and Provincial Investment Commissions (NIC / PICs) signed 26 investment licenses in October and November, totaling 1.8 billion USD in potential investment -- despite the firing of the NIC chairman. Local developers have begun construction in the International Zone on a 120 million USD hotel project, financed by the Summit Group, a consortium of American investors. The Defense Department Task Force for Business and Stability Operations in Iraq (TFBSO) provided extensive support for the joint venture (JV) investment opportunities with Beiji Fertilizer and Diyala Electric and other State Owned Enterprises (SOEs) being considered as well as with construction licensing and approvals for the IZ hotel project. End Summary.

JAPANESE AND EGYPTIAN INVESTORS WIN SOE JV CONTRACTS

[1](#)2. (SBU) In early November, MIM successfully concluded negotiations with a Japanese consortium on JV production-sharing agreements for the Beiji Fertilizer Company, an SOE. The ministry wrapped up a similar deal with an Egyptian consortium for a second SOE, Diyala Electric. Both 15 year contracts must still win the approval of Industry Minister Fawzi Hariri and the Council of Ministers (COM). Under the terms, the investors provide for capital upgrades, assume all operational costs, and take over management of the factories, capturing a guaranteed share of production in return. The consortium in the Beiji Fertilizer deal, which include Japanese trading company Marubeni and Iraqi investors, will receive 85 percent of production. For the Diyala Electric JV, Egyptian company Al-Suwidi and a group of Iraqi investors will receive 61.5 percent of production. Under the terms, the consortia must maintain all payrolls at current levels and provide independent electricity generation for the plants.

MIM OFFICIALS SEEK 6 MORE JV DEALS

¶3. (SBU) MIM officials anticipate soon concluding negotiations with other international investors for six similar JV deals, including three state-owned cement factories, ceramics and glass production lines, and a sulfur plant. The cement factories include Sinjar Cement Plant in Ninewa Province, the Karbala Cement Plant, and the Kubaisa Cement Plant in Anbar Province. The State Company for Ceramics and Glass and the Mishraq Sulfur Company under negotiation are located in Anbar and Ninewa provinces, respectively (Reftels A, B, C).

BILLION DOLLAR JV WITH ARCELORMITTAL STILL PENDING

¶4. (SBU) Of the 56 bids MIM received for 36 SOE JV tenders in July (Reftel A), the largest one -- from steel giant Arcelormittal for the Basra State Company for Steel and Iron -- remains in negotiation. The Defense Department's Task Force for Business and Stability Operations (TFBSO) provided extensive logistical support for Arcelormittal's due diligence visits to Iraq. While some MIM officials are still cautiously optimistic they will conclude a deal estimated at over 1 billion USD, Arcelormittal's losses from the global financial crisis, combined with a drawn-out negotiating process by MIM, could threaten the deal's prospects.

NIC AND PICS INK DEALS DESPITE NIC CHAIR'S SACKING

¶5. (SBU) On November 1, senior USG and GOI officials,

BAGHDAD 00003906 002 OF 002

American and Iraqi business executives, and the World Bank participated in the Iraqi-U.S. Dialogue on Business and Investment (DBIC) to candidly discuss challenges to doing business and investing in Iraq (Reftel D). The next day, the COM voted to dismiss National Investment Commission (NIC) Chairman Ahmed Ridha, in part because of his bitter public allegation (made at the DBIC) that the COM's inaction was holding up some 68 billion of the 74 billion USD in investments the NIC had "attracted" to Iraq over the past 10 months (Reftel E).

¶6. (SBU) Yet in spite of Ridha's dismissal, the NIC and all Provincial Investment Commissions (PIC) are up and running. As of November 7, they have signed 26 investment licenses totaling 1.8 billion USD in potential investment. In October and November alone, various PICs signed 15 licenses representing a potential 1.2 billion USD. The Najaf PIC issued a license for a 105 million USD tourism project to Kuwaiti firm Al-Dashti. The Muthana PIC signed seven licenses for Iraqi and Turkish firms to develop 338.5 million USD worth of projects, including a hospital, casinos, cement factories, and a commercial mall. In Karbala, the PIC signed six licenses totaling 674.4 million USD to Iraqi, Kuwaiti, and Turkish firms to develop a date palm factory, a plastics factory, two housing projects, and one health care facility. Investment authorities in Basra issued a 30 million USD investment license to an Iraqi company for a poultry production facility. In addition, an Iraqi company has reportedly begun construction on two Diwaniyah PIC-licensed projects, a brick factory and asphalt plant, worth 1.6 million USD.

IZ HOTEL

¶7. (U) Finally, local developers have begun construction in the International Zone on a 120 million USD hotel project, financed by the Summit Group, a consortium of American investors. The project was the first to be licensed by the NIC, in April 2008. Although Marriott originally planned to manage the hotel, a large Emirati hotel chain will now

take over operations upon completion, estimated in two years. TFBSO support for the IZ hotel project consisted of facilitating relevant GOI land lease and investment license for the project. This was the first investment license issued by the NIC.

COMMENT

18. (SBU) While encouraging, the projects approved by the NIC and the PICs do not necessarily reflect an overall GOI strategy for attracting investment, and some may never even reach the stage of implementation. As noted, TFBSO support has been crucial to moving the SOEs to the point at which JVs are feasible -- demonstrating the need for continued USG involvement until such time as the GOI is ready to implement its own investment strategy. End Comment.

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